

Credit Opinion

16 December 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Tianjin Jinnan State-owned Capital Investment and Operation Group Co. Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Tianjin Jinnan State-owned Capital Investment and Operation Group Co. Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Tianjin Jinnan State-owned Capital Investment and Operation Group Co. Ltd. ("JNSI" or the "Company") reflects (1) Jinnan District Government's strong capacity to provide support; and (2) the local government's very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Jinnan District's status as the one of the four districts surrounding the urban area of Tianjin with good industrial fundamentals. However, its fiscal self-sufficiency is moderate.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong strategic position as the most important integrated urban operation service provider in Jinnan District; (2) essential role in infrastructure construction and resettlement housing in the model towns of Jinnan District; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) moderate sustainability of the model town construction business; (2) moderate access to funding channels; and (3) medium level of contingent risk.

The stable outlook on JNSI's rating reflects our expectation that the local government's capacity to provide support will be stable, and that the Company will maintain its important position in the development of Jinnan District over the next 12 to 18 months.

Rating Drivers

- Strong strategic position as the most important integrated urban operation service provider in Jinnan District
- Essential role in infrastructure construction and resettlement housing in Jinnan District
- Moderate sustainability of the model town construction business
- Good track record of receiving government support
- Moderate access to funding channels
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management, reduced exposure to external guarantees, and enhanced funding ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance, increased risk exposure to commercial activities, or weakened access to funding.

Key Indicators

	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	91.1	92.2	96.9
Total Equity (RMB billion)	12.3	13.8	13.5
Total Revenue (RMB billion)	1.5	1.0	0.3
Total Debt/Total Capital (%)	53.4	53.3	51.9

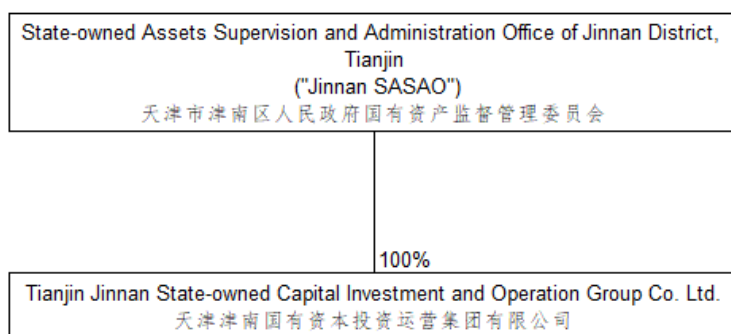
All ratios and figures are calculated using CCXAP's adjustments based on JNSI's 2023FY audited pro forma financial reports and 2024Q3 unaudited financial reports.

Source: Company data, CCXAP research

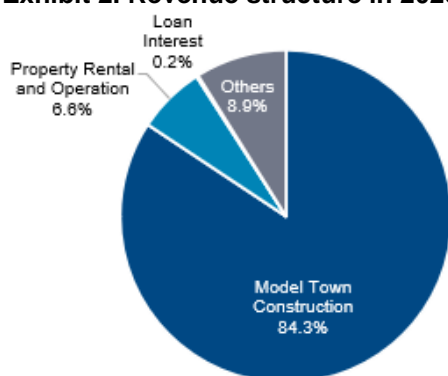
Corporate Profile

Established in February 2024, JNSI is the most important local infrastructure investment and financing companies ("LIIFCs") in Jinnan District. The Company consolidated several local state-owned enterprises ("SOEs") through equity transfers in 2023, solidifying its functional positioning as an urban service provider.

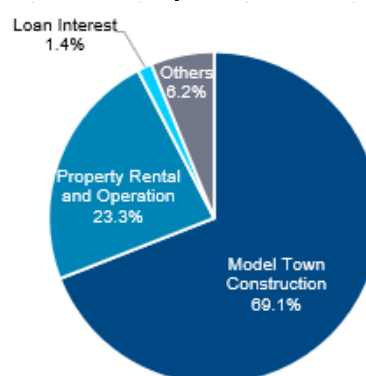
As of 30 September 2024, the State-owned Assets Supervision and Administration Office of Jinnan District, Tianjin City ("Jinnan SASAO") directly held 100.0% of the Company's shares. JNSI has undertaken the functions of urban operation, infrastructure construction and resettlement housing in most of the model towns in Jinnan District. It is also involved in commercial businesses including industrial investment, asset operation and trading.

Exhibit 1. Shareholding chart as of 30 September 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe that Jinnan District Government has a strong capacity to provide support to the Company, given its status as one of the four districts surrounding the Tianjin metropolitan area. Jinnan District's economic and fiscal strength has improved over years of development. However, its fiscal metrics are moderate.

Tianjin, located in Northern China, is one of China's four municipalities under the direct administration of central government with relatively good economic strength and industrial base. In 2023, it achieved a gross regional production ("GRP") of RMB1.7 trillion with a year-over-year ("YoY") growth rate of 4.3%; and in the first nine months of 2024, the GRP of Tianjin City amounted to RMB1.3 trillion, with a YoY growth rate of 4.7%. Its major industries include petrochemical, textiles, car manufacturing, mechanical, and metalworking industries. The Beijing-Tianjin-Hebei Collaborative Development Strategy was officially introduced in early 2014 as the Chinese government seeks to foster regional growth engines with coordinated regional development. Tianjin is positioned as one of China's advanced manufacturing bases and leading shipping centers. Benefited from the strong performance of favored industries, Tianjin City reported general budgetary revenue of RMB202.8 billion in 2023, a YoY increase of 9.8% from the low level in 2022. Tax revenue is the main contributor to general budgetary revenue, averaging accounting for around 76% over the past three years. However, its fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) is moderate, with a 3-year average ratio of 65.8%, reflecting a reliance on fiscal support from higher-tier governments to balance its fiscal budget. The recent turndown in the real estate market also affects its fiscal stability as government funds decrease from RMB112.7 billion in 2021 to RMB59.0 billion in 2023, which mainly came from the sales of land. The high linkage between its fiscal revenue and the property market would increase volatility and uncertainty in

government fiscal profile. In addition, Tianjin City has an increasing and heavy government debt burden due to large prior investments in municipal construction, land reserves and resettlement housing construction, which may weaken the refinancing capacity of its SOEs. As of 31 December 2023, the local government's outstanding debt amounted to RMB1.1 trillion, accounting for 66.4% of the GRP. Tianjin City, as a key region for government debt resolution, has received policy guidance and continuous support from higher-tier governments, including refinancing bond funds. In recent years, the local LIIFCs in Tianjin City have been primarily focused on debt resolution and enhancing corporate liquidity.

Exhibit 4. Key economic and fiscal indicators of Tianjin City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,569.5	1,631.1	1,673.7
GRP Growth (%)	6.6	1.0	4.3
General Budgetary Revenue (RMB billion)	214.1	184.7	202.8
General Budgetary Expenditure (RMB billion)	315.3	273.0	328.0
Local Government Debt (RMB billion)	788.2	864.6	1,111.8

Source: Statistics Bureau of Tianjin City, CCXAP research

Jinnan District is located in the south-eastern part of Tianjin and is one of the four districts surrounding the Tianjin urban area. It is an important corridor between the central city and the Binhai New Area, with obvious transport advantages. Through the construction and operation of the Haihe Education Park, the National Convention and Exhibition Centre and the Tianjin Intelligent Valley, Jinnan District has combined education and industrial development to form leading industries such as advanced metallurgy, equipment manufacturing, biomedicine and electronic information. In 2024, there were 106 newly signed industrial projects landed in Jinnan District with a total investment of more than RMB21.9 billion, forming multi-industrial clusters.

In recent years, the development speed of Jinnan District has been slowdown and the government debt has been rising rapidly. Its economic and financial strength ranked in the middle and upper echelons of Tianjin City. In 2023, the GRP of Jinnan District increased by 1.5%, lower than the average growth rate of Tianjin. In 2023, Jinnan District reported the general budgetary revenue of RMB5.4 billion, increasing from RMB5.0 billion in 2022, as pandemic impact and the value-added tax credit refund weakened. Taxes represented a moderate proportion of its revenue, accounting for around 60.5% on average over the past three years. In addition, government fund revenue, mainly from land concession, is an important supplement to the financial resources of Jinnan District. However, since 2022, due to the volatility of land market conditions, the revenue from governmental funds of Jinnan District has decreased significantly. Jinnan District's fiscal balance ratio remains moderate, recorded at an average ratio of 54.1% during the past three years, reflecting a high reliance on fiscal support from higher-tier governments. As of 31 December 2023, the local government's outstanding debt amounted to RMB67.7 billion, accounting for around 120.5% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Jinnan District

	2021FY	2022FY	2023FY
GRP (RMB billion)	60.3	55.4	-
GRP Growth (%)	6.3	-7.4	1.5
General Budgetary Revenue (RMB billion)	6.2	5.0	5.4
General Budgetary Expenditure (RMB billion)	15.8	7.5	9.6
Local Government Debt (RMB billion)	44.9	57.3	67.7

Source: Statistics Bureau of Jinnan District, CCXAP research

Government's Willingness to Provide Support

Strong strategic position as the most important integrated urban operation service provider in Jinnan District

Under the management of Jinnan District Government, there are a small number of LIIFCs in Jinnan District with a high degree of functional concentration. Among them, JNSI is a core entity with the largest asset scale in investment and operation of infrastructure construction in Jinnan District. As the end of September 2024, the Company's total assets amounted to around RMB96.9 billion. In 2023, Jinnan SASAO transferred 90.08% of the equity of Tianjin Jinnan Urban Construction Investment Co., Ltd. ("JNUC") to the Company, which has become a core subsidiary of JNSI to perform its functions. In addition, JNUC has the largest amount of outstanding bonds among the LIIFCs in Jinnan District. A default by any of the Company's subsidiaries could have a significant negative impact on the reputation of the local government and the local refinancing environment. The Company is mainly responsible for the construction of resettlement housing and infrastructure in most of the model towns in Jinnan District. Given its key role in Jinnan District and its close relationship with the local government, we believe that JNSI will continue to receive support from the local government.

Essential role in infrastructure construction and resettlement housing in Jinnan District

JNSI's primary public activities include construction projects for resettlement housing and infrastructure construction in Jinnan District, based on the local government's investment promotion plans. These projects cover the core areas of Jinnan District and are essential to local economic development.

JNSI is engaged in infrastructure construction and resettlement housing in Jinnan District mainly through agent construction model. Under the agent construction model, the Company signs construction agreements with the Jinnan District Government and carries out land acquisition and demolition, infrastructure and resettlement housing construction. Jinnan District Government will pay the total cost plus a few percentage markups after examining the projects. As of 30 September 2024, the Company had 3 entrusted construction projects under construction with a total planned investment of around RMB8.2 billion and an uninvested amount of around RMB2.7 billion.

However, there are a few project reserves for JNSI's resettlement housing and infrastructure construction business, which weakens the stability and continuity of the business. The Company's model town construction projects are primarily sourced from the local government's regional planning. As the Company's model town projects have been carried out previously, most of the projects are in the completion and resettlement phase with a limited outstanding investment amount. As of 30 September 2024, the Company had no resettlement housing or infrastructure construction projects under planning, which may weaken the sustainability of the Company's business.

Low but increasing risk exposure to commercial activities

JNSI is also engaged in some commercial activities including industrial investment, asset operation and trading. Based on our assessment, its risk exposure to commercial activities is relatively small but increasing as these commercial activities are in their early stages and require further capital investment.

JNSI is engaged in industrial fund investment through its subsidiaries, which are in the early stage of development. For supporting the development of key industries in Jinnan District, the Company as an LP and other state-owned enterprises jointly invested in two industry funds. The establishment size of the industrial funds was a total of RMB1.9 billion, with the main investment direction being strategic emerging industries such

as intelligent manufacturing, artificial intelligence, medical and healthcare and big data. As of 30 September 2024, the Company had completed a total of RMB1.4 billion of contributed capital, paid-in capital of RMB1.1 billion, respectively. However, the Company has not yet realized any investment income as the fund investment requires a certain recovery cycle. The expansion of the financial services business may pose credit contagion and investment risks to the Company.

JNSI conducts asset operations through the construction of industrial parks and the leasing of related properties. The Company mainly operates two industrial parks with a total leasable area of 79,300 square meters and generates revenue from leasing and providing business incubation services to tenant companies. In 2023, the Company's asset operating income recorded RMB67.9 million with a gross margin of 46.1%. However, with the downturn in the market economy and tenant changes, the occupancy rate of the Company's industrial parks has decreased significantly since 2024 compared to the previous year. As of 30 September 2024, the occupancy rates of the two industrial parks were 43.5% and 73.2% respectively. In addition, the Company had 3 industrial investment projects under construction with a total planned investment of RMB7.5 billion and an outstanding amount of RMB2.8 billion, as of 30 September 2024. Under the self-operated model, the Company self-finances the construction of various properties, including office buildings, hotels, talent flats and commercial properties, and balances its capital through diversified means such as commercial leasing, property sales and catering.

In addition, the Company's trading segment consists primarily of steels. The Company mainly adopts a demand-on-purchase model and makes the confirmation on volume and prices with downstream customers before procurement. It has a high concentration of suppliers and customers, and its counterparties are private entities, which exposes the Company to certain business risks. However, the volume of JNSI's trading business is relatively small.

Good track record of receiving government support

JNSI has a track record of receiving support from its shareholders, Jinnan SASAO, in the form of cash subsidies, refinancing bond funds and equity share transfers. In 2024, Jinnan SASAO transferred the equity of several local SOEs including JNUC to JNSI which became operating entities for JNSI's resettlement housing, infrastructure construction and industrial investment. As of 30 September 2024, the Company had received a total of RMB3.1 billion in government refinancing bond funds, which has provided significant support for its debt repayments. Besides, from 2022 to 2023, the Company continuously received subsidies and project repayments from the local government with total amount of RMB233.0 million and RMB7.5 billion, respectively. We expect government support to JNSI to remain stable over the next 12 to 18 months, given its important urban service operator role.

Lengthy collection period for model towns construction business

JNSI's lagging payment collection of resettlement housing and land consolidation business lengthens the return realization period. The Company's resettlement housing and infrastructure construction in Jinnan District require substantial upfront capital investment, and the repayments of resettlement housing and infrastructure construction have a certain cyclicity and lag in returns.

In addition, the Company has subsequent expansion and renovation projects within the model town that have not yet been completed with the signing of supplemental agreements, which affects the overall settlement progress. As of 30 September 2024, the Company had completed 11 model towns construction projects with a total investment of RMB68.6 billion. At the same time, these completed projects have a total proposed revenue of RMB75.4 billion and a total outstanding repayment of RMB21.7 billion, which was pending for fiscal

arrangements to generate project payback. Due to the slow progress in the return of payments for infrastructure construction and resettlement housing, there are still some completed projects waiting to be settled which are booked in development costs of around RMB32.6 billion.

JNSI's asset liquidity is moderate as it includes a significant allocation to receivables and inventories. The Company's receivables are of a certain scale, mainly from project settlement with local SOEs and government units, which accounted for 22.3% of its total assets and formed a drain on the Company's fund. On top of that, the Company's inventories were relatively high, accounting for around 42.8% of its total assets. The inventories represent development costs of infrastructure construction and resettlement housing projects, which have longer recovery periods and lower liquidity. In addition, the Company's other receivables accounted for around 14.5% of its total assets, the majority of which comprise loans to other regional SOEs with low liquidity. As of 30 September 2024, the Company's restricted assets accounted for 1.6% of its total assets.

Moderate access to funding channels

JNSI has moderate access to funding its operations and investments, mainly including bank loans, the onshore debt capital markets and non-standard financing. As of 30 September 2024, the Company's total debt increased slightly to RMB34.5 billion from RMB34.2 billion at end-2022 mainly due to the strict control on the debt growth. At the same time, the total capitalization ratio, measured by total debt to total capital, remained at a relatively high level at 51.9%. The Company has relied on external financing, mainly bank loans and bonds, to fund its business expansion over the last few years. Also, the Company has a moderate short-term debt burden with the short-term debt accounting for 31.5% of its total debt and the cash to short-term debt ratio was 0.3x as of 30 September 2024.

The Company maintains good relationships with various large domestic banks such as Bank of Tianjin Co., Ltd. and Agricultural Bank of China. As of 30 September 2024, it obtained total credit facilities of RMB86.4 billion with an available portion of RMB27.0 billion. The Company also has a track record of issuing different kinds of bond products such as SCPs, PPNs, MTNs and corporate bonds through its subsidiary JNUC. During the first eleven months of 2024, it issued five tranches of SCP and five tranches of corporate bonds, raising RMB7.5 billion in total. In addition, the Company had low exposure to non-standard at 1.1% of its total debt.

Considering the Company's future investment in regional model towns construction projects and reliance on external financing, we expect its debt level to continue to increase in the next 12-18 months. The financing environment for public activities, such as infrastructure construction, has tightened due to the regulatory requirements for risk control in Tianjin City. However, given the Company's key position in Jinnan District, we expect that government support such as refinancing bond funds can alleviate the refinancing pressure for the Company.

Medium level of contingent risk

JNSI's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the Company had outstanding external guarantees of RMB6.9 billion, accounting for 17.7% of its net assets. All the external guarantees were provided to local state-owned companies, with relatively manageable risks.

However, as of 30 September 2024, the Company's guarantee to Tianjin Xingcheng Investment and Development Co., Ltd. ("Xingcheng") amounted to RMB2.4 billion, accounting for around 43.0% of its total external guarantee. As a local SOE held by the Tianjin Jinnan District Land Consolidation Centre, Xingcheng is

mainly responsible for infrastructure construction projects in the Balitai Model Town. In addition, the Company also has fund lending transactions with Xingcheng, totaling approximately RMB0.9 billion. Large capital transactions with a single SOE may increase the Company's contingent liability risk.

ESG Considerations

JNSI faces environmental risks because it has undertaken infrastructure construction and resettlement housing projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

The Company is exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for JNSI and affect the government's propensity to support the Company.

JNSI's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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